Hume Cement Industries (HUME MK)

Coal Concerns Overdone; Logistics Headwinds Gradually Easing

	BUY (Maintained)
Share Price	RM3.32
Target Price	RM5.00
Upside	50.6%
Previous TP	RM4.87

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Highlights

- Recent share price weakness in the cement sector reflects the rebound in Newcastle coal prices (+25% ytd). However, we see limited impact on HUME given its use of lower-grade coal and prior stockpiling.
- The impact of stricter overloading enforcement is expected to be contained, supported by prior cement price hikes and operational efficiencies. Improving truck availability in East Malaysia should gradually ease logistical bottlenecks.
- Following the disposal of the non-core business, we expect a higher dividend payout in the coming quarter. Maintain BUY; target price: RM5.00.

Analysis

- **Coal prices spike up, causing fear in the cement sector.** The cement sector's share prices have retraced by around 26% from recent highs, largely reflecting the sharp increase in Newcastle coal prices, which have risen around 25% ytd from a low base in 2025. The rebound in coal prices has been largely driven by LNG supply disruptions linked to the Middle East conflict, as well as Indonesia's Ministry of Energy and Mineral Resources setting a lower 2026 production quota of 600m tonnes (from ~790m tonnes in 2025) to support prices, alongside discussions around the potential introduction of a 5% export tax.
- **Actual implications may be limited.** We believe the Newcastle coal benchmark may not accurately reflect Hume Cement Industries' (HUME) true cost exposure, as the company primarily utilises lower calorific value coal in its cement production process. Its plants are able to handle coal of varying calorific values, allowing HUME to source whichever grade is most cost-competitive. Prices for these lower-grade coals are less widely reported and typically trade at a discount to Newcastle benchmark coal. In addition, HUME tends to stockpile coal during periods of lower prices (such as last year), which helps cushion near-term cost pressures.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	1,205.2	1,114.6	1,122.4	1,181.3	1,225.5
EBITDA	353.3	356.4	409.0	441.5	472.8
Operating profit	296.2	301.5	333.0	365.1	396.0
Net profit (rep./act.)	210.9	223.2	417.0	250.2	273.1
Net profit (adj.)	209.3	195.8	231.3	250.2	273.1
EPS	28.9	27.1	32.0	34.6	37.7
PE	11.5	12.3	10.4	9.6	8.8
P/B	4.1	3.3	2.3	2.0	1.8
EV/EBITDA	7.3	6.5	5.2	4.4	3.8
Dividend yield	2.4	3.0	4.2	4.7	5.2
Net margin	17.4	17.6	20.6	21.2	22.3
Net debt/(cash) to equity	33.1	(12.3)	(27.9)	(38.0)	(44.5)
Interest cover	16.0	24.5	12.3	13.5	14.7
ROE	35.8	26.9	22.2	21.2	20.6

Source: HUME, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Materials
Bloomberg ticker:	HUME MK
Shares issued (m):	725.5
Market cap (RMm):	2,408.6
Market cap (US$m):	608.5
3-mth avg daily t'over (US$m):	0.3

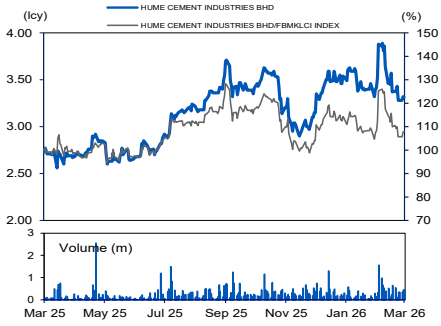
Price Performance (%)

52-week high/low				RM3.92/RM2.4
1mth	3mth	6mth	1yr	YTD
(3.2)	7.1	(2.9)	24.8	(1.2)

Major Shareholders %

Hong Leong Manufacturing Group	72.8
Public SmallCap	1.9
Goon Khing Khing	1.4

Price Chart



Source: Bloomberg

COMPANY DESCRIPTION

HUME is an emerging cement player and the third-largest cement player in Malaysia in terms of capacity.

- **Minimal impact of overloading trucks will be further mitigated by availability of new trucks.** Recall that intensified enforcement by the Ministry of Transport Malaysia and Jabatan Pengangkutan Jalan on overloaded commercial vehicles from 14 Oct 25 led to an increase in cement distribution costs. In response, HUME implemented a 13-15% price hike in Nov 25 to mitigate cost pressures. Despite limited truck availability, HUME still delivered an around 4% qoq earnings growth in 2QFY26 to RM63.8m, underscoring strong operational execution. Looking ahead, the injection of additional truck capacity in East Malaysia is expected to ease logistical bottlenecks, and we anticipate that HUME will be able to sustain its ASP, supported by resilient demand.
- **Expect a slight sequentially weaker 3QFY26…** We expect HUME to report slightly weaker earnings qoq in 3QFY26, in line with historical seasonal factors due to festive periods (CNY and Ramadan), driven by: a) fewer working days, b) sequentially flattish cement ASPs, and c) a slowdown in construction activity following the surge in diesel prices amid the ongoing Middle East conflict.
- **…but expect higher dividend payout.** Recall that on 4 Mar 26, HUME completed the disposal of its loss-making concrete business at RM215m. Following the disposal, we expect a further strengthening of the company's net cash position, reinforcing its position relative to peers that remain in net debt. As such, we anticipate an improvement in dividend payouts in 3QFY26, in line with the company's historical dividend distribution pattern in 1Q and 3Q. We expect dividend payout assumption for FY26-28 to be 45%, which brings FY26 DPS to 14 sen, translating into a net dividend yield of 4.3%.
- **Potential relaxation of import conditions unlikely to impact cement industry.** On 5 Jan 26, Prime Minister Datuk Seri Anwar Ibrahim stated that the government does not rule out the possibility of easing import requirements to ensure construction material costs remain low, if necessary, with specific mention of iron, steel and cement. However, we believe this will not affect the supply-demand dynamics of the West Malaysian cement market, as: a) Malaysian cement producers continue to have excess capacity and can ramp up production at any time if demand improves, with average utilisation rates of 60-70%; b) imported cement would incur additional transportation and freight costs, making it less price-competitive compared with locally produced cement; and c) cement has a relatively short shelf life of 3-6 months, even when stored in dry, cool, and low-humidity conditions, which further makes cement imports more challenging.

Valuation/Recommendation

- **Maintain BUY with a slightly higher target price of RM5.00 (from RM4.87),** still based on 15x 2026F PE, which is lower than the industry's 2011-13 average PE of 19x, prior to an earnings disappointment in 2017.
- We continue to like HUME for its above-industry-average margins, supported by a healthy utilisation rate and superior plant efficiency. Beyond earnings, there is also capital management potential, as HUME is currently in a net cash position.

Earnings Revision/Risk

- We raise our FY27 earnings forecasts by 4%, primarily reflecting lower distribution costs driven by improved truck availability in East Malaysia.
- For FY26, we leave our earnings forecasts unchanged, as our existing estimates already incorporate a conservative approach on the cost structure.

Sales Assumption

Year to 30 Jun	2025	2026F	2027F	2028F
Current assumptions				
Cement prices (RM/mt)	375	410	420	430
EBITDA margin (%)	32.0	36.4	37.4	38.6
Net margin (%)	17.6	20.6	21.2	22.23

Source: UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental
- The group's Gopeng cement plant holds ISO 14001 certification for environmental management systems.
- The group has planted 570 trees in its plant in Gopeng.
- The group has progressively reduced around 9% of its CO2e emissions since 2019.

Social
- Collectively, the group has provided over 7,000 hours of safety training to its employees.

Governance
- The group's FTSE Russell ESG rating increased to 3.8 from 2.3.
- 100% of HUME's plants have received ISO 37001 certification for anti-bribery and anti-corruption.

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	1,114.6	1,122.4	1,181.3	1,225.5
EBITDA	356.4	409.0	441.5	472.8
Deprec. & amort.	(54.9)	(76.0)	(76.4)	(76.8)
EBIT	301.5	333.0	365.1	396.0
Net interest income/(expense)	(12.3)	(27.0)	(27.0)	(27.0)
Pre-tax profit	295.1	306.0	338.1	369.0
Tax	(71.9)	(74.7)	(87.9)	(95.9)
Minorities	-	-	-	-
Net profit	223.2	417.0	250.2	273.1
Net profit (adj.)	195.8	231.3	250.2	273.1

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	809	760	763	766
Other LT assets	42	76	76	76
Cash/ST investment	234	372	491	615
Other current assets	177	264	255	267
Total assets	1,220	1,471	1,584	1,724
ST debt	31	31	5	5
Other current liabilities	155	287	296	307
LT debt	114	64	64	64
Other LT liabilities	184	60	65	65
Shareholders' equity	728	1,029	1,154	1,283
Minority interest	0	0	0	0
Total liabilities & equity	1,220	1,471	1,584	1,724

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	356.3	297.4	324.5	348.3
Pre-tax profit	295.1	306.0	338.1	369.0
Tax	(7.4)	(74.7)	(87.9)	(95.9)
Deprec. & amort.	72.8	76.0	76.4	76.8
Working capital changes	31.0	(10.0)	(2.1)	(1.6)
Other operating cashflows	4.0	5.0	6.0	7.0
Investing	(138.0)	135.0	(80.0)	(80.0)
Capex (growth)	(26.7)	(80.0)	(80.0)	(80.0)
Investments	0.0	0.0	0.0	0.0
Others	(151.7)	0.0	0.0	0.0
Financing	(241.7)	(145.7)	(125.1)	(144.7)
Dividend payments	(72.3)	(115.7)	(125.1)	(144.7)
Proceeds from borrowings	135.0	0.0	0.0	0.0
Loan repayment	135.0	0.0	0.0	0.0
Others/interest paid	4.0	5.0	6.0	7.0
Net cash inflow (outflow)	(23.4)	286.7	119.4	123.6
Beginning cash & cash equivalent	108.3	84.9	371.6	491.0
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	84.9	371.6	491.0	614.6

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	32.0	36.4	37.4	38.6
Pre-tax margin	26.5	27.3	28.6	30.1
Net margin	17.6	20.6	21.2	22.3
ROA	16.1	15.7	15.8	15.8
ROE	26.9	22.5	21.7	21.3
Growth				
Turnover	(7.5)	0.7	5.2	3.7
EBITDA	0.9	14.8	7.9	7.1
Pre-tax profit	5.6	3.7	10.5	9.2
Net profit	(6.5)	18.2	8.2	9.2
Net profit (adj.)	(6.5)	18.2	8.2	9.2
EPS	(6.5)	18.2	8.2	9.2
Leverage				
Debt to total capital	(22.2)	(14.5)	(10.6)	(10.6)
Debt to equity	(19.9)	(9.2)	(6.0)	(5.4)
Net debt/(cash) to equity	(12.3)	(26.9)	(36.6)	(42.5)
Interest cover	24.5	12.3	13.5	14.7

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